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War Loans
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and
The Third Liberty Loan

Guaranty Trust Company
of New York

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War Loans

How the United States has Financed its Wars for Liberty

IN the battle line that stretches across wasted lands from Switzerland to the North Sea our young men are standing with the bravest spirits of France and England, to settle once for all whether German autocracy is to have its way in this world, or whether the things that alone make life worth living are to endure.

These men give freely, without complaint and without regret, whatever they have of life or hope. They ask no man to take their places. They ask only that those at home for whom they fight shall provide them with food and clothing, guns, munitions and equipment. Without these in abundance, their efforts will be of no avail.

The situation is plainly up to every man and woman in this country. It is not sufficient to the need of the hour that one shall do only his or her "bit." Nothing less than the utmost effort will now suffice. Germany must be beaten. There will be no peace until she is. That is the task we have undertaken, and the quicker and more thoroughly it is done the better will it be for all of us.

The Third Loan

In this third Liberty Loan the Government asks for $3,000,000,000. The entire resources of the United States are the security back of these bonds. The issue will run for ten years, maturing on September 15, 1928, bearing interest from May 9, 1918 at 4¼ per cent., payable semi-annually on September 15, and March 15. A cash payment of 5 per cent. with the subscription is required; the other payments fall due on May 28, July 18, and August 15, the amounts being 20 per cent., 35 per cent., and 40 per cent., respectively. Banking institutions and others have made arrangements for payment in smaller

installments. Principal and interest of the bonds are exempt from all Federal, State and local taxation, except Federal estate or inheritance taxes, surtaxes, excess profits, and war profits taxes. Interest on a principal amount of $5,000 is tax-exempt except for Federal estate or inheritance taxes. The bonds will not be convertible into future issues.

These are facts such as any investor would consider were the matter entirely a business proposition. But the purpose for which these bonds are offered transcends all considerations of security, or terms, or income. If that purpose fails, nothing we have will be secure. Here is no matter of calculation.

A Direct Service

Every bond bought is a loan to the Government for the purchase of war supplies and the payment of services. For the majority of our people such loans are the only avenues of direct service to their country in such a crisis as this.

Since the United States entered the war a year ago, about $10,000,000,000 has been placed at the disposal of the Government.

Up to April 11, 1918, our net debt has been increased by about $8,580,000,000, nearly $4,765,000,000 of which is advances to our Allies. The menace of the German was not quite so clear to all of us a year ago. Now we know that unless we loan to the Government to provide for our armies, that menace will become the reality that it is today in Belgium, Serbia, Roumania and Russia. In his historic address at Baltimore, on April 6, President Wilson said:

The Cause of Justice

"The reasons for this great war, the reason why it had to come, the need to fight it through, and the issues that hang upon its outcome, are more clearly disclosed now than ever before. It is easy to see just what this particular loan means, because the cause we are fighting for stands more sharply revealed than at any previous crisis of the momentous struggle. The man who knows least can now see plainly how the cause of justice stands and what is the imperishable thing he is asked to invest in. Men in America may be more sure than they ever were before that

the cause is their own and that, if it should be lost, their own great Nation's place and mission in the world would be lost with it.

"It has been with this thought that I have sought to learn from those who spoke for Germany whether it was justice or dominion and the execution of their own will upon the other nations of the world that the German leaders were seeking. They have answered—answered in unmistakable terms. They have avowed that it was not justice, but dominion and the unhindered execution of their own will.

What Defeat Means

"That program once carried out, America and all who care or dare to stand with her must arm and prepare themselves to contest the mastery of the world—a mastery in which the rights of common men, the rights of women and of all who are weak, must for the time being be trodden underfoot and disregarded and the old, age-long struggle for freedom and right begin again at its beginning. Everything that America has lived

for and loved and grown great to vindicate and bring to a glorious realization will have fallen in utter ruin and the gates of mercy once more pitilessly shut upon mankind!

Force to the Utmost!

"Germany has once more said that force, and force alone, shall decide whether justice and peace shall reign in the affairs of men, whether right as America conceives it or dominion as she conceives it shall determine the destinies of mankind. There is, therefore, but one response possible from us: Force, force to the utmost, force without stint or limit, the righteous and triumphant force which shall make right the law of the world and cast every selfish dominion down in the dust."

The First Two Loans

Twice since we entered this war have our people been called upon as their fathers were, to supply funds to the Government in its hour of need. Upon the occasion of the first Liberty Loan the Government asked for $2,000,000,000, and $3,034,000,000 was sub-

scribed, the number of subscribers being more than 4,000,000. Before the year was ended another loan of $3,000,000,000 was asked for and $4,617,532,300 was subscribed. It is estimated that more than 9,420,000 men, women and children participated in the second Liberty Loan.

The increased response of the American people to that Loan showed an awakened sense of individual responsibility in the success of the financial management of the war. But we are not yet educated to the purchase of bonds as are the people of other countries. Approximately 9 per cent. of the public participated in the second Liberty Loan, whereas in both England and France more than 11 per cent. have helped individually and directly to finance those countries in performing their part in the present war.

America Prosperous

America has prospered greatly since August 1, 1914. In the months that have elapsed since then, to the end of December, 1917,

sources of the country when this nation was born, and this Government "of the people, by the people and for the people" was conceived.

Revolutionary Loans

When the patriots at Lexington "fired the shot heard 'round the world," the thirteen colonies found themselves suddenly in the midst of war, but with practically no funds in their Treasuries. The Continental Congress was without power to raise money by taxation, and had to depend upon credit bills and requisitions drawn against the several colonies. France was the first foreign country to come to the aid of struggling America, the King of France himself advancing us our first loan. All told France's loan was $6,352,500; Holland loaned us $1,304,000; and Spain assisted us with $174,017. Our loan from France was repaid between 1791 and 1795 to the Revolutionary Government of France; the Holland loan during the same period in five annual installments; and the Spanish loan in 1792–3.

First Domestic Loan

Our first domestic war loan of £6,000 was made in 1775 and the loan was taken at par. A year and a half later found Congress laboring under unusual difficulties. Boston and New York were held by the enemy, the patriot forces were retreating, and the people were as little inclined to submit to domestic taxation as they had formerly been to "taxation without representation." To raise funds even a lottery was attempted. In October, 1776, Congress authorized a second loan for $5,000,000. It was not a pronounced success, only $3,787,000 being raised in 12 months. In 1778, fourteen issues of paper money were authorized as the only way to meet the expenses of the army. By the end of the year 1779, Congress had issued $200,000,000 in paper money, while a like amount had been issued by the several States. In 1781, as a result of this financing and of the general situation, Continental bills of credit had fallen 99 per cent.

Then came Robert Morris, that genius of finance, who found ways to raise the money which assured the triumph of the American cause. By straining his personal credit, which was higher than that of the Government, he borrowed upon his own individual security on every hand. On one occasion he borrowed from the commander of the French fleet, securing the latter with his personal obligation. If Morris and other patriotic citizens had not rendered such assistance to the Government, some of the most important campaigns of the Revolutionary War would have been impossible. Following came the Bank of Pennsylvania which issued its notes—in effect, loans—to provide rations and equipment for Washington's army at Valley Forge. These notes were secured by bills of exchange drawn against our Envoys abroad, but it was never seriously intended that they should be presented for payment. The bank was a tremendous success in securing the money necessary to carry

out its patriotic purposes, and was practically the first bank of issue in this country.

Hamilton's Funding Policy

With the actual establishment of the United States and the adoption of the Constitution, Alexander Hamilton came forward with a funding scheme by which the various debts owed to foreign countries, to private creditors, and to the several States were combined. In 1791, on a specie basis, our total debt was $75,000,000. The paper dollar was practically valueless and the people were forced to give the Government adequate powers to raise money and to impose taxes. Between that date and 1812, thirteen tariff bills were passed to raise money to meet public expenditures and pay off the national debt.

War of 1812

For some time previous to the actual outbreak of the War of 1812, hostilities had been predicted. In a measure, this enabled Congress to prepare for it. And although the

war did not begin until June of 1812, as early as March of that year a loan of $11,000,000, bearing 6 per cent. at par, to be paid off within 12 years from the beginning of 1813, was authorized. Of this, however, only $2,150,000 was issued, and all was redeemed by 1817. The next year a loan of $16,000,000 was authorized and subscribed. This was followed, in August, by a loan of $7,500,000 which sold at 88¼%.

At the end of the war the total loans negotiated by the Government aggregated $88,000,000. The nation's public debt, as a result of this war, was increased to $127,334,933 in 1816. By 1835, either by redemptions or maturity, it was *all paid.*

Mexican War Loans

The Mexican War net debt incurred by the United States was approximately $49,000,000 and was financed by loans in the form of Treasury notes and Government stock. The Treasury notes, under the act of 1846, totalled $7,687,800 and the stock $4,999,149.

The latter paid 6 per cent. interest. By act of 1847, Treasury notes to the amount of $26,122,100 were issued, bearing interest in the discretion of the Secretary of the Treasury, reimbursable one and two years after date, and convertible into United States stock at 6 per cent. They were redeemable after December 31, 1867. Economic developments following this war led to a period of extraordinary industrial prosperity which lasted for several years. A change in the fiscal policy of the Government, with over-expansion of industry, however, resulted in a panic in 1857 and a Treasury deficit in 1858. The debt contracted in consequence of the Mexican war was redeemed in full by 1874.

Civil War Loans

The situation had not improved to any great extent when Lincoln took office on March 4, 1861, and by mid-November of that year a panic was in full swing. The outbreak of the Civil War found the Treasury empty and the

financial machinery of the Government seriously disorganized. Public credit was low, the public mind was disturbed, and raising money was difficult. In 1862, the Legal Tender Act was passed, authorizing an issue of $150,000,000 of legal tender notes, and an issue of bonds in the amount of $500,000,000 was authorized.

This proved to be a most popular loan. The bonds were subject to redemption after five years and were payable in twenty years. They bore interest at 6 per cent., payable semi-annually, and were issued in denominations of $50, $100, $500, and $1000. Through one agent, Jay Cooke, a genius at distribution, who employed 2,850 sub-agents and advertised extensively, this loan was placed directly with the people at par in currency. Altogether the aggregate of this loan was $514,771,600. Later in that year Congress authorized a second issue of Treasury notes in the amount of $150,000,000 at par, with interest at 6 per cent.; in January, 1863, a third issue of $100,000,000 was authorized,

which was increased in March to $150,000,000, at 5 per cent. interest. These issues were referred to as the "one and two-year issues of 1863."

Deficit in 1862

In December, 1862, Congress had to face a deficit of $277,000,000 and unpaid requisitions amounting to $47,000,000. By the close of 1863 nearly $400,000,000 had been raised by bond sales. A further loan act, passed March 3, 1864, provided for an issue of $200,000,000 of 5 per cent. bonds known as "ten-fortys," but of this total only $73,337,000 was disposed of. Subsequently, on June 30, 1864, a great public loan of $200,000,000 was authorized. This was an issue of treasury notes, payable at any time not exceeding three years, and bearing interest at 7 3/10 per cent. Notes amounting to $828,800,000 were sold. The aggregate of Government loans during the Civil War footed up a total of $2,600,700,000; and on September, 1, 1865, the public debt closely approached $3,000,000,000, less than one-half of which was funded.

Civil War loans, with one exception, which sold at 89 3/10, were all placed at par in currency, subject to commissions ranging from an eighth to one per cent. to distributing bankers. The average interest nominally paid by the Government on its bonds during the war was slightly under 6 per cent. Owing to payment being made in currency, however the rate was, in reality, much higher. With the conclusion of the war, the reduction of the public debt was undertaken, and it has continued with but two interruptions to date.

Heavy tax receipts for several years after the close of the war potentially enabled the Government to reduce its debt. Indeed, from 1866 to 1891, each year's ordinary receipts exceeded disbursements, and enabled the Government to lighten its financial burdens. In 1866, the decrease in the net debt was $120,395,408; in 1867, $127,884,952; in 1868, $27,297,798; in 1869, $48,081,540; in 1870, $101,601,917; in 1871, $84,175,888; in 1872, $97,213,538; and in 1873, $44,318,470.

Refunding Operations

Through refunding operations—in addition to bonds and short-time obligations redeemed with surplus revenues—the Government paid off, up to 1879, $535,000,000 bonds bearing interest at from 5 to 6 per cent. In this year the credit of the Government was on a 4 per cent. basis, and a year later on a 3¼ per cent. basis, against a maximum basis of 15½ per cent. in 1864.

Between 1881 and 1887, the Government paid off, either with surplus revenues or by conversion, $618,000,000 of interest bearing debt. In 1891, all bonds then redeemable were retired, and on July 1, 1893, the public debt amounted to less than one-third of the maximum outstanding in 1865. In 1900, the Government converted $445,900,000 bonds out of an aggregate of $839,000,000 convertible under the refunding act passed by Congress in that year. And further conversions in 1903, 1905, and 1907 brought the grand total up to $647,250,150—a result which earned for the Government a *net annual saving* in interest account of $16,551,037.

A Debt-Paying Nation

The United States is a debt-paying nation. We are always ready to contract a public debt when necessary, but are, if anything, more zealous in repaying it. Hamilton's admonition as to the fundamental necessity of maintaining a high standard for our national credit and an unsullied reputation for punctual performances of all public contracts has been the country's text and gospel for a century and a quarter. Hence, America's credit, despite occasional fluctuations, has steadily risen, and our national debt has sold on a lower income basis than that of any other nation in the world.

A Popular Loan

Following the sinking of the *Maine* in Havana Harbor, in 1898, Congress authorized an issue of $200,000,000 3 per cent. ten-twenty year bonds Of this aggregate $198,792,660 were sold by the Government at par. So popular was this loan, it was oversubscribed seven times. During the year 1898, following the allotment to the public, this issue sold at a premium, the price going to 107¾, and,

during the next year, to 110¾. After the war ended, the Government, in accordance with its unvarying custom, began to pay off this debt; but, despite the Secretary of the Treasury's offer to buy these bonds, he succeeded in purchasing only about $20,000,000 bonds.

Preserved America's Ideals

America's war loan experience, therefore, is practically coextensive with the life of the nation. The ready willingness of our citizens to subscribe for each recurring war loan issue has been our mainstay in preserving the ideals of the Founders of the Republic, in perpetuating the fundamental principles of American government. Without the financial support of the people in the several crises referred to, American history as we know it today might never have been written. Patriotic and public-spirited assistance herein has been a chief factor in shaping our destiny.

The history of the United States proves abundantly that our people do not hesitate when the life or the honor of the nation is at stake.